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C O N F I D E N T I A L SECTION 01 OF 02 ZAGREB 000551

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [HR](#) [BK](#) [SR](#) [ICJ](#)

SUBJECT: EUR DAS JONES' DISCUSSIONS IN ZAGREB ON BOSNIA,
KOSOVO, SERBIA AND THE ECONOMY

REF: A. ZAGREB 543

[1](#)B. ZAGREB 545

Classified By: Rick Holtzapple, PolEcon Counselor, for reasons 1.4 (b)
& (d).

SUMMARY

[1](#)1. (SBU) Croatian officials told EUR DAS Stu Jones on September 1 of their concern about political developments in Bosnia-Herzegovina, but pledged that Croatia would continue to play a constructive, and relatively hands-off, role there. The Croats also noted continued strains in their relationship with Serbia, and expressed specific skepticism over Serb proposals to host a Non-Aligned Movement anniversary event in 2011. FM Jandrokovic said he was inclined to have Croatia offer an oral argument in the ICJ case over Kosovo's independence, but needed to research it further with his staff. On economic issues, both non-governmental experts and the central bank governor noted a series of Croatia's vulnerabilities, including large debt burdens and no strategic approach to investment. DAS Jones' discussions of the Slovenia border dispute are reported septel. END SUMMARY.

BOSNIA

[1](#)2. (C) Foreign Minister Gordan Jandrokovic said the GoC was very concerned about political developments in B-H. On a somewhat parochial level, Zagreb was concerned about recent events such as the highway decision, where the Bosnian Croat representatives were being disregarded and outvoted by the Bosniaks. Jandrokovic said that in his meeting with High Rep Inzko at the Bled Forum in Slovenia on August 31, Inzko had also expressed his annoyance at how the Bosnian Croats were treated. Jandrokovic noted, however, that the general situation in B-H also seemed to be a mess. He asked how Croatia might be helpful in sorting things out. DAS Jones replied by outlining the strategy of fulfilling 5 2 in an accompanying context of discussions on constitutional reform, progress on visa eligibility and the prospect of eventual NATO membership. But the mutually exclusive positions of the various sides made things very difficult.

[1](#)3. (C) Jandrokovic raised the recent joint meeting of RS President Dodik and B-H Croat leader Covic with Serbian President Tadic. Jandrokovic said that he was "appalled" by Covic's trip, and assured DAS Jones that Zagreb had not encouraged such a step. DAS Jones commented that it could be useful if Prime Minister Kosor could deliver that message directly to both Covic and Ljubic. DAS Jones expressed appreciation for Zagreb's efforts to also discourage discussion of a third entity in B-H, and said we considered that off the table. In that context, he asked, what were Zagreb's ideas for how to satisfy the Bosnian Croat community's needs? Jandrokovic replied with three items: protection of language rights, a TV station, and political arrangements that required Croatian views to be taken into account without being simply ignored or outvoted. DAS Jones

said he would discuss these issues with Bosniak leaders on his upcoming visit there.

¶4. (SBU) Jandrokovic also noted his standing request for a meeting with the Secretary, and said such a meeting would help to highlight our partnership on issues such as Bosnia. DAS Jones noted that we were aware of the meeting request, and were working on what would be the best timing for such talks, taking into account the dynamic of developments in Bosnia, as well as other issues.

¶5. (C) In a separate meeting, President Mesic's foreign policy advisor Tomislav Jakic underlined Croatian concerns about Bosnia's stability. He said Croatia fully supported the U.S. approach on OHR transition. "We should not cling to it," he said, "but it would be dangerous to abandon it now and leave a vacuum of power." He worried, however, that the third entity idea was still not dead, and could re-appear once Mesic, who is a vocal opponent, leaves office. B-H, he concluded, still needs "a massive international presence."

KOSOVO AND SERBIA

¶6. (SBU) DAS Jones noted our interest in having as many countries as possible offer oral arguments in Serbia's case before the ICJ regarding Kosovo. FM Jandrokovic said he was inclined to have Croatia participate. He noted, however, that every time Croatia speaks up on Kosovo, Belgrade responds with public accusations about ethnic cleansing of Serbs from Croatia and a lack of cooperation on refugee returns. He said he hoped the U.S. and other partners would dismiss such provocative statements appropriately. DAS Jones

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replied that we understood the tensions in the relationship with Belgrade, and appreciated the context of such exchanges. (NOTE: As reported reftels, the MFA staff initially confirmed to us on September 2 that Croatia would offer an oral argument at the ICJ, and then added on September 4 that it wanted to coordinate this with Bulgaria and Hungary, the two countries that recognized Kosovo together with Croatia last year. END NOTE.)

¶7. (C) Jandrokovic said that engaging with Belgrade did still present challenges. The Croatian analysis was that despite Tadic's rhetorical commitment to the EU path, the actions of Serbia did not always support that policy. One example is the recent Serbian initiative to host in 2011, a 50th anniversary event for the Non-Aligned Movement. Croatia would hear out Serbia on the proposal, including likely attending a meeting on the idea on the margins of the UNGA. But it made Croatia uncomfortable. Belgrade had an ulterior motive in trying to organize the event, in order to seek allies in its battle over Kosovo. Noting that Slovenia and Macedonia shared similar misgivings, Jandrokovic suggested that the U.S. could help resolve the issue by simply sending a quiet message that we saw thought it was a bad idea.

¶8. (C) Even Jakic, whose boss is traditionally sympathetic toward anything to do with the NAM, was negative on Belgrade's proposal, agreeing that it was primarily aimed at mischief-making on Kosovo. He noted that Egyptian President Mubarak would be coming to Zagreb in October, and that it was up to Mubarak, as chair of the NAM, whether any event in 2011 should be hosted in Belgrade. Jakic did feel that, if a NAM event was held in Belgrade, then all of the former Yugoslav republics should be involved, since Serbia alone was not the successor to Yugoslavia.

CROATIA'S ECONOMIC OUTLOOK

¶9. (SBU) DAS Jones engaged in a lively lunch discussion with a small group of Croatian economists, businesspeople, and politicians on the state of the Croatian economy and the challenges faced by the Kosor government moving into the

fall. Among all the participants, optimism was in short supply. All agreed that a succession of governments had squandered opportunities to make difficult reforms in relatively good times and now the country faced a true crisis. Chamber of Economy President Nadan Vidosevic (who announced his candidacy for President the following day) lamented that the vast majority of the income earned from the large scale privatizations over the years was spent on consumption rather than investment. Economics Institute Director Sandra Svaljek commented that PM Kosor had certain advantages over her predecessor in dealing with interest groups such as unions and pensioners. However, all the guests feared that the challenges would prove too great for the HDZ government. None expressed great hope that the opposition SDP would perform much better. DAS Jones asked about the prospects for shipyard privatization. Academic and former Deputy Prime Minister Mladen Vedris dismissed the prospects of the companies that have expressed interest in shipyards so far, saying that none of them are in the "core business" of shipbuilding, but are only interested in a short term investment followed by resale. Regarding Croatia,s other major foriegn exchange earner, tourism, the luncheon guests again decried the lack of any strategic vision for the sector.

¶10. (SBU) After lunch, DAS Jones met privately with Central Bank Governor Zeljko Rohatinski. The governor was more optimistic on Croatia,s fundamental stability, but pointed to three areas of economic vulnerability: the large trade deficit, the large stock of foreign debt, and the high euroization of the economy. He continues to agree that an IMF standby arrangement can be avoided in Croatia, but only if the government is able to continue financing its foreign debt obligations. A successful bond issue at favorable interest rates earlier this year significantly improved the government,s situation, but he believes an additional 400) 500 million euro issue will be necessary. He believes the Finance Ministry will try to place this bond on the American market later this year. Although large scale government borrowing has "crowded out" much private sector lending, Rohatinski said the banking system remains sound and liquid, with no "credit crunch" to speak of. He told DAS Jones that the worst of the crisis was behind Croatia, but that the country now faced a period of economic stagnation. (NOTE: A Dow Jones reporter cited Rohatinski in an article the next day as stating that Croatia had passed the worst of the slump and is now beginning a gradual recovery, prompting optimistic headlines in several local papers. Rohatinski spent the next news cycle tamping down expectations. END NOTE.)
WALKER